

**NORTH CAROLINA UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-1141, SUB 8**

**IN THE MATTER OF:**

**APPLICATION BY 904 GEORGETOWN TREATMENT PLANT, LLC  
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING  
SEWER UTILITY SERVICE IN ITS SERVICE AREA  
IN BRUNSWICK COUNTY IN NORTH CAROLINA**

**PRE-FILED DIRECT TESTIMONY**

**OF**

**JULIE PERRY**

**ON BEHALF OF**

**904 GEORGETOWN TREATMENT PLANT, LLC**

**JULY 6, 2023**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE**  
2 **RECORD.**

3 A. My name is Julie G. Perry. I am a Principal Utility Consultant and Co-Owner of  
4 Peedin & Perry Consulting, LLC. My business address is 3440 Bizzell Grove  
5 Church Road, Princeton, North Carolina 27569.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
7 **BUSINESS EXPERIENCE.**

8 A. I have a Bachelor of Arts Degree in Accounting from North Carolina State  
9 University. I am a Certified Public Accountant licensed in the State of North  
10 Carolina.

11 I began my career with the Office of the State Auditor in October 1989, where I  
12 performed audits of state agencies, Community Colleges, and other performance  
13 audits. In September 1990, I joined the Accounting Division of the Public Staff of  
14 the North Carolina Utilities Commission and remained employed there until my  
15 retirement on May 1, 2022. At that time and with over 32 years of State service, I  
16 was the Accounting Manager in the Natural Gas and Transportation Section of the  
17 Public Staff. Over the course of my tenure with the Public Staff, I have filed  
18 testimony and affidavits in general rate cases, as well as presented items for  
19 approval in front of this Commission for Water, Transportation, and Natural Gas  
20 Utilities, as well as mergers, annual reviews, and other special projects and  
21 investigations including affiliated agreements and proceedings for the expansion  
22 of natural gas service in North Carolina.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to support the request by 904 Georgetown  
3 Treatment Plant, LLC (904 Georgetown or the Company) for an increase in rates  
4 as provided in the Application for Rate Increase and the attached Exhibit I. My  
5 testimony addresses certain financial aspects of the rate case, including 904  
6 Georgetown's proforma revenues and expenses, including the pro-forma  
7 adjustments.

8 **Q. WHAT ROLE DID YOU HAVE IN THE PREPARATION OF THE**  
9 **APPLICATION FOR RATE INCREASE AND THE SUPPORTING**  
10 **SCHEDULES?**

11 A. My role was to prepare the Application for Rate Increase and to prepare the  
12 Exhibit I schedules attached to the Application.

13 **Q. WHAT TEST YEAR PERIOD IS 904 GEORGETOWN USING IN ITS**  
14 **APPLICATION FOR A RATE INCREASE?**

15 A. The Company is utilizing a test year in this proceeding for their fiscal year ended  
16 October 31, 2022.

17 **Q. WHAT IS THE REVENUE INCREASE REQUESTED BY**  
18 **904 GEORGETOWN TREATMENT PLANT?**

19 A. 904 Georgetown's current per book test year revenues based on the current rates  
20 are \$239,394, and current expenses are \$373,225. These revenues currently  
21 result in 904 Georgetown operating at a net loss of \$133,831. After

1 annualizing present rates, the pro-forma revenues are \$239,019. The Company  
2 application proposes to increase service revenues by \$136,700, which  
3 equates to total revenues of \$375,718, an increase of approximately 36.38% over  
4 present annual revenues. The Company's rates have not been adjusted since 2007,  
5 except for a change Ordered by the Commission in Docket W-1441, Sub 6 (2015),  
6 related to a change in the State corporate income tax rate.

7 **Q. WHAT IS 904 GEORGETOWN'S PROPOSED CAPITAL STRUCTURE IN**  
8 **THIS RATE CASE?**

9 A. 904 Georgetown is proposing an equity ratio of 50% and a debt ratio of 50%. The  
10 proposed cost of long-term debt is 4.50%.

11 **Q. WHAT RATE OF RETURN DOES 904 GEORGETOWN'S CURRENT**  
12 **RATES YIELD?**

13 A. 904 Georgetown's current rates yield a rate of return on operating revenue  
14 deductions of (35.90%).

15 **Q. WHAT RATE OF RETURN WOULD 904 GEORGETOWN'S PROPOSED**  
16 **RATES YIELD?**

17 A. The rates proposed by 904 Georgetown would yield an overall rate of return on  
18 operating revenue deductions of 7.15% based on a margin on operating expenses  
19 which relates to an operating ratio of 93.47% (including taxes) or 93.33% (excluding  
20 taxes). As allowed under NC Gen Stat 62-133.1, we have used the operating ratio  
21 method to evaluate 904 Georgetown's proposed rate increase. Prior to the operating  
22 ratio determination and due to the small margin between the proposed revenue

1 requirement calculations, if the rate base method was determined to be appropriate,  
2 we propose using a capital structure of 50% debt and 50% equity and a rate of return  
3 on common equity of 9.8%, and a debt cost of 4.5%. This would result in an overall  
4 return of 7.15%.

5 **Q. PLEASE DESCRIBE THE ADJUSTMENTS YOU ARE MAKING TO 904**  
6 **GEORGETOWN'S ORIGINAL COST RATE BASE.**

7 **A.** I have made pro forma adjustments to plant in service to reflect additions since the  
8 last rate case in Docket No. W-1141, Sub 5, as well as adjustments during the test  
9 year to reclassify expenditures from Maintenance & Repair expense to Plant in  
10 Service. I have also made corresponding adjustments to depreciation expense and  
11 accumulated depreciation to reflect these additions and reclassifications to plant in  
12 service.

13 In addition, I have calculated cash working capital based on the standard formula  
14 of one eighth of operation and maintenance expenses. The average tax accruals  
15 are also calculated using a standard formula of one-half of property taxes and one-  
16 fifth of payroll taxes.

17 **Q. PLEASE DESCRIBE THE ADJUSTMENTS YOU HAVE MADE TO THE**  
18 **OPERATION AND MAINTENANCE EXPENSES IN THIS CASE.**

19 **A.** I have made several adjustments to the operation and maintenance expenses in  
20 this case to reflect an ongoing level of expenses for the Company's operations. I  
21 will briefly describe each of the adjustments below:

22 **Salaries expense** -- I have made an adjustment to reflect the 2023-2024 salaries of

1 the Company's employees. This results in an increase of \$2,390 to salaries  
2 expense, and a corresponding adjustment to payroll taxes of \$183.

3 **Administrative and Office expenses** – I have made an adjustment to reflect  
4 increases for monthly office rent and office rental equipment for 2023. This results  
5 in an increase of \$1,440 for administrative and office expenses.

6 **Maintenance & repair expenses** – I have made adjustments to remove certain  
7 items from maintenance and repair expenses and reclassify those items to plant in  
8 service. I have also made adjustments to normalize unexpected maintenance and  
9 repair expenses, as well as to normalize equipment repair expenses. These  
10 adjustments result in an overall adjustment to maintenance and repair expenses of  
11 \$7,110.

12 **Sludge Hauling expenses** – I have made an adjustment to normalize sludge  
13 hauling expenses by reviewing the levels over a two-year period due to a higher  
14 level that was experienced during the test year. When compared to the test year  
15 level of sludge hauling, this will result in a decrease in test year sludge hauling  
16 expenses of (\$15,400).

17 **Utilities expenses** - I have adjusted utilities expenses to reflect certain expenses  
18 that should be removed because these expenses should be borne by Sandpiper  
19 Golf & Country Club and not 904 Georgetown. These expenses have currently  
20 been removed from the Company's books on a going-forward basis. I have also  
21 adjusted the cell phone expenses to reflect a current ongoing level. These  
22 adjustments result in a decrease in utilities expenses of (\$25,693).

1       **Landscape, Mowing & Effluent Expenses** – I have adjusted this expense  
2       category to reflect a current ongoing level of expenses, which includes the  
3       updated Effluent Agreement expenses using the same basis as was done in the  
4       prior rate case. This results in a decrease of (\$4,020).

5       **Professional Fees** – I have adjusted professional fees to reflect a reclassification  
6       of certain engineering services from professional fees to regulatory expenses. This  
7       results in a decrease of (\$1,405).

8       **Regulatory expense** – I have adjusted regulatory expense to reflect actual and  
9       estimated legal and accounting services, as well as the application fee and other  
10      fees related to mailing notices to customers required for the filing of this rate case.  
11      We plan to update these estimated expenses either by the close of the hearing or  
12      in a late-filed exhibit after the hearing. I have amortized these expenses over a  
13      period of 3 years. This results in an increase of \$8,191.

14    **Q. PLEASE DESCRIBE THE YOUR CALCULATIONS FOR INCOME**  
15    **TAXES.**

16    **A.** I have calculated state and federal income taxes based on the  
17    statutory rates of 2.5% and 21%, respectively.

18    **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

19    **A.** Yes.

20

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**INDEX TO EXHIBITS**  
For The Test Year Ended October 31, 2022

<u>LINE NO.</u>	<u>TITLE</u>	<u>SCHEDULE NO.</u>
1	MARGIN ON OPERATING REVENUE DEDUCTIONS REQUIRING A RETURN	1
2	CALCULATION OF GROSS REVENUE EFFECT FACTORS	1-1
3	ORIGINAL COST RATE BASE	2
4	CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE	2A
5	CALCULATION OF CASH WORKING CAPITAL AND AVERAGE TAX ACCRUALS	2-1
6	NET OPERATING INCOME FOR A RETURN	3
7	CALCULATION OF UPDATED NET OPERATING INCOME FOR A RETURN	3A
8	ADJUSTMENT TO SERVICE REVENUES	3-1
9	ADJUSTMENT TO SALARY EXPENSE	3-2
10	ADJUSTMENT TO ADMINISTRATIVE & OFFICE EXPENSE	3-3
11	ADJUSTMENT TO MAINTENANCE & REPAIR EXPENSE	3-4
12	ADJUSTMENT TO SLUDGE REMOVAL	3-5
13	ADJUSTMENT TO UTILITIES EXPENSE	3-6
14	ADJUSTMENT TO LANDSCAPE, MOWING & EFFLUENT EXPENSES	3-7
15	ADJUSTMENT TO PROFESSIONAL EXPENSES	3-8
16	ADJUSTMENT TO REGULATORY EXPENSE	3-9
17	CALCULATION OF INCOME TAXES	3-10
18	CALCULATION OF REVENUE REQUIREMENT	4
19	CALCULATION OF OPERATING RATIOS	4A



**904 Georgetown Treatment Plant LLC**  
 Docket No. W-1141, Sub 8  
**MARGIN ON OPERATING REVENUE DEDUCTIONS**  
**REQUIRING A RETURN**  
 For The Test Year Ended October 31, 2022

Exhibit I  
 Schedule 1

Line No.	Item	Per Books (a)	After Proforma Adjustments (b)	Company Proposed Rates (c)
1	Net operating income for a return	(\$133,831) [1]	(\$104,649) [4]	\$24,550 [6]
2	Operating revenue deductions requiring a return	<u>372,830</u> [2]	<u>343,357</u> [5]	<u>343,357</u> [7]
3	Return	<u>-35.90%</u> [3]	<u>-30.48%</u> [3]	<u>7.15%</u> [8]

- [1] Exhibit I, Schedule 3, Line 30, Column (a).
- [2] Exhibit I, Schedule 3, Line 19 + Line 20 + Line 21 + Line 22 + Line 23, Column (a).
- [3] Line 1 divided by Line 2.
- [4] Exhibit I, Schedule 3, Line 30, Column (c).
- [5] Exhibit I, Schedule 3, Line 19 + Line 20 + Line 21 + Line 22 + Line 23, Column (c).
- [6] Line 2 x Line 3.
- [7] Exhibit I, Schedule 3, Line 19 + Line 20 + Line 21 + Line 22 + Line 23, Column (e).
- [8] Per Company.

Exhibit I  
Schedule 1-1

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**CALCULATION OF GROSS REVENUE EFFECT FACTORS**  
For The Test Year Ended October 31, 2022

Line No.	<u>Item</u>	<u>Capital Structure</u> (a)	<u>Cost Rates</u> (b)	<u>Retention Factor</u> (c)	<u>Gross Revenue Effect</u> (d)
<b><u>Rate Base Factor:</u></b>					
1	Debt	50.00% [1]	4.50% [1]	0.998700 [2]	0.022529 [4]
2	Equity	50.00% [1]	9.80% [1]	0.769249 [3]	0.063699 [4]
3	Total	<u>100.00%</u>			<u>0.086228</u>
<b><u>Net Income Factor:</u></b>					
4	Total revenue	1.000000			
5	Regulatory fee (L4 x .13%)	<u>0.001300</u>			
6	Balance (L4 - L5)	0.998700			
7	State income tax (L10 x 2.5%)	<u>0.024968</u>			
8	Balance (L10 - L11)	0.973733			
9	Federal income tax (L12 X 21%)	<u>0.204484</u>			
10	Retention factor (L12 - L13)	<u>0.769249</u>			

[1] Per Application.

[2] Column (a), Line 6.

[3] Column (a), Line 10.

[4] Column (a) multiplied by Column (b) divided by Column (c).

904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
**ORIGINAL COST RATE BASE**  
For The Test Year Ended October 31, 2022

Line No.	Item	Company Books @ 10/31/2022 [1] (a)	Pro Forma Adjustments (b)	Company Amounts [5] (c)
1	Plant in service	\$1,010,047	\$68,213 [2]	\$1,078,260
2	Accumulated depreciation	(900,338)	5,340 [2]	(894,998)
3	Net plant in service (L1 + L2)	109,710	73,553	183,262
4	Contributions in aid of construction (CIAC)	0	0	0
5	Accumulated amortization of CIAC	0	0	0
6	Customer Advances	0	0	0
7	Accumulated deferred income taxes (ADIT)	0	0	0
8	Cash working capital	0	33,988 [3]	33,988
9	Average tax accruals	0	(894) [4]	(894)
10	Original cost rate base (Sum of L3 thru L9)	<u>\$109,710</u>	<u>\$106,647</u>	<u>\$216,356</u>

[1] Per Sewer Fixed Assets as of 10-31-2022.  
[2] Exhibit I, Schedule 2A, Line 48.  
[3] Exhibit I, Schedule 2-1, Line 2.  
[4] Exhibit I, Schedule 2-1, Line 7.  
[5] Column (a) plus Column (b), unless otherwise footnoted.

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**CALCULATION OF PLANT IN SERVICE, ACCUMULATED  
DEPRECIATION, AND DEPRECIATION EXPENSE**  
For The Test Year Ended October 31, 2022

Exhibit I  
Schedule 2A

Line No.	Asset Description	Cost Basis	Placed in Service Date [1]	Service Life in Years	Accum Depr through 10/31/2021 per Books	Depr Expense @ 10/31/2022 + Updates Column (b)/(d)	Accum Depreciation thru 10/31/2022 + Updates
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Treatment Plant	\$219,911	4/20/1999	25	\$197,920	\$8,796	\$206,716
2	Plant Foundation	255,974	4/20/1999	25	230,377	10,239	240,616
3	Tanks	101,000	4/20/1999	25	90,900	4,040	94,940
4	Pump	141,825	4/20/1999	25	127,643	5,673	133,316
5	Motor	101,000	4/20/1999	25	90,900	4,040	94,940
6	Fence	8,775	4/20/1999	15	8,775	-	8,775
7	Road	5,440	4/20/1999	15	5,440	-	5,440
8	Computer	1,070	10/14/2005	5	1,070	-	1,070
9	Time Monitor	168	1/13/2004	7	84	-	84
10	Filing Cabinet	131	2/2/2004	7	66	-	66
11	Float, Valve	355	3/30/2004	7	177	-	177
12	Motor	815	9/1/2004	7	408	-	408
13	Delay Switch	55	9/1/2004	7	27	-	27
14	Pump	3,871	10/26/2004	7	1,936	-	1,936
15	Lift Station Meter	1,225	11/3/2004	7	613	-	613
16	Float/Switch	428	2/3/2005	7	428	-	428
17	Signs	150	2/8/2005	7	150	-	150
18	Manhole Cover	49	2/21/2005	7	49	-	49
19	Pump	1,393	4/25/2005	7	1,393	-	1,393
20	2 Pumps	1,569	5/1/2005	7	1,569	-	1,569
21	Testers	189	5/17/2005	7	189	-	189
22	Storage File	137	6/17/2005	7	137	-	137
23	Testers	170	1/30/2006	7	170	-	170
24	Equipment	414	5/1/2006	7	414	-	414
25	Vertical Turbine Pumps	13,882	5/1/2007	7	13,882	-	13,882
26	Pilot Control	516	5/31/2007	7	516	-	516
27	Pump	1,145	5/12/2008	7	573	-	573
28	4" Diesel Pump	646	10/29/2008	5	323	-	323
29	Blower Aerifier for Holding Tanks	1,980	3/9/2009	5	1,980	-	1,980
30	Bay Station control Panel	3,500	3/11/2010	5	3,500	-	3,500
31	Pump	10,022	2/27/2013	5	5,011	-	5,011
32	2HP Grinder Pump	13,908	5/14/2015	5	13,908	-	13,908
33	Pump Wyndfall Lift Station	15,651	11/1/2019	5	7,826	3,130	10,956
34	2 Pumps	11,625	10/19/2020	5	3,488	2,325	5,813
35	Mapping - Structure and Improvements	20,875	6/30/2020	5	6,263	4,175	10,438
36	Control Panel	51,240	5/11/2021	5	5,124	10,248	15,372
37	Control Panel	5,818	6/14/2021	5	582	1,164	1,745
38	Generator	34,000	10/13/2021	5	3,400	6,800	10,200
39	Pump	1,519	12/15/2021	5	152	304	456
40	Zoe E295-2in flange 2 hp swr pump	1,513	10/10/2022	5	-	303	303
41	10 horsepower motor	1,276	10/19/2022	5	-	255	255
<b>Completed Post-Test Year Plant Additions:</b>							
42	Noise Dampening Foam Fence for Blower Motors	7,490	4/1/2023	7	-	1,070	1,070
43	New Railings on Lift Station	8,200	12/1/2022	7	-	886	886
<b>Budgeted Projects for 2023:</b>							
44	Sounds Reducing Lids over Blowers	5,490	10/1/2023	7	-	784	784
45	Refurbish Sand Fillers	23,850	10/1/2023	7	-	3,407	3,407
46	Totals (Sum of Lines 1-45)	<u>\$1,078,260</u>			<u>\$827,359</u>	<u>\$67,639</u>	<u>\$894,998</u>
47	Amount Per Books	<u>1,010,047</u>				<u>70,108</u>	<u>900,338</u>
48	Pro Forma Adjustment per Company (L47 -L46)	<u>\$68,213</u>				<u>(\$2,470)</u>	<u>\$5,340</u>

[1] Per Docket No. W-1141, Sub 5 - prior rate case in 2010, plus additions per General Ledger and Depreciation Expense Report.

904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
**CALCULATION OF CASH WORKING CAPITAL  
AND AVERAGE TAX ACCRUALS**  
For The Test Year Ended October 31, 2022

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
	<b><u>Cash Working Capital:</u></b>	
1	Total O&M expenses	<u>\$271,906</u> [1]
2	Cash working capital (L1 x 1/8)	<u><u>33,988</u></u>
	<b><u>Average Tax Accruals:</u></b>	
3	Property taxes	<u>437</u> [2]
4	Average accrual (L3 x 1/2)	<u>219</u>
5	Payroll taxes	<u>3,375</u> [3]
6	Average accrual (L5 x 1/5)	<u>675</u>
7	Average tax accruals	<u><u>\$894</u></u>

[1] Exhibit I, Schedule 3, Column ( c), Line 19

[2] Exhibit I, Schedule 3, Column ( c), Line 22

[3] Exhibit I, Schedule 3, Column ( c), Line 23

Exhibit I  
Schedule 3

904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
**NET OPERATING INCOME FOR A RETURN**  
For The Test Year Ended October 31, 2022

Line No.	Present Rates			Proposed Rates		
	Amount Per Books [1] (a)	Pro Forma Adjustments (b)	After Pro Forma Adjustments [2] (c)	Rate Increase (d)	After Rate Increase [3] (e)	
<b>Operating Revenues:</b>						
1	Service revenues	\$239,257	(376)	238,882	\$136,700	\$375,581
2	Miscellaneous revenues	137	0	137	0	137
3	Uncollectible accounts	0	0	0	0	0
4	<b>Total operating revenues (Sum of L1 thru L3)</b>	<b>239,394</b>	<b>(376)</b>	<b>239,019</b>	<b>136,700</b>	<b>375,718</b>
<b>Operation &amp; Maintenance Expenses:</b>						
5	Salary expense	39,000	2,390	41,390	0	41,390
6	Administrative & office expense (except salaries)	19,244	1,440	20,684	0	20,684
7	Maintenance & repair expense (Incl. Contract Labor)	63,107	7,110	70,218	0	70,218
8	Landscape & Mowing & Effluent expenses	46,009	(4,020)	41,989	0	41,989
9	Utilities expense	32,006	(25,693)	6,313	0	6,313
10	Chemicals for treatment	1,772	0	1,772	0	1,772
11	Testing Fees	4,720	0	4,720	0	4,720
12	Permit Fees	1,310	0	1,310	0	1,310
13	Sludge removal expense	65,100	(15,400)	49,700	0	49,700
14	Other Expenses: Professional expenses	11,199	(1,405)	9,794	0	9,794
15	Other Expenses: Insurance Expense	13,827	0	13,827	0	13,827
16	Other Expenses: Bad Debt Expense	1,738	0	1,738	0	1,738
17	Other Expenses: Miscellaneous Expense	61	200	261	0	261
18	Regulatory expense	0	8,191	8,191	0	8,191
19	<b>Total O&amp;M expenses (Sum of L5 thru L18)</b>	<b>299,093</b>	<b>(27,186)</b>	<b>271,906</b>	<b>0</b>	<b>271,906</b>
<b>Depreciation and Taxes:</b>						
20	Depreciation expense	70,108	(2,470)	67,639	0	67,639
21	Amortization of CIAC	0	0	0	0	0
22	Property taxes	437	0	437	0	437
23	Payroll taxes	3,192	183	3,375	0	3,375
24	Other Taxes	0	0	0	0	0
25	Regulatory Fee	395	(84)	311	178	488
26	State income tax	0	0	0	797	797
27	Federal income tax	0	0	0	6,526	6,526
28	<b>Total depreciation and taxes (Sum of L20 thru L27)</b>	<b>74,133</b>	<b>(2,371)</b>	<b>71,761</b>	<b>7,501</b>	<b>79,262</b>
29	<b>Total operating revenue deductions (L19 + L28)</b>	<b>373,225</b>	<b>(29,557)</b>	<b>343,668</b>	<b>7,501</b>	<b>351,168</b>
30	<b>Net operating income for a return (L4 - L29)</b>	<b>(\$133,831)</b>	<b>\$29,182</b>	<b>(\$104,649)</b>	<b>\$129,199</b>	<b>\$24,550</b>

[1] Per Sch 3A Company Proforma NOI, Column (a).  
[2] Per Sch 3A Company Proforma NOI, Column (t).  
[3] Column (c) + Column (d).

COMPANY PRO FORMA ADJUSTMENTS

Line No.	Item	Per Books 10/31/22 (a)	Service Revenue (b)	Salaries (c)	Administrative & Office Expense (d)	Maintenance & Repair Expense (e)	Sludge Removal (f)	Utilities Expense (g)	Chemicals (h)	Testing Fees (i)	Permit Fees (j)	Landscape & Mowing & Irrigation (k)	Professional Expenses (l)
<b>Operating Revenues:</b>													
1	Service revenues	\$239,257	(\$376)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	Miscellaneous revenues	137	0	0	0	0	0	0	0	0	0	0	0
3	Uncollectible accounts	0	0	0	0	0	0	0	0	0	0	0	0
4	<b>Total operating revenues (Sum of L1 thru L3)</b>	<b>239,394</b>	<b>(\$376)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operation &amp; Maintenance Expenses:</b>													
5	Salary expense	39,000	0	2,390	0	0	0	0	0	0	0	0	0
6	Administrative & Office expense (except salaries)	19,244	0	0	1,440	0	0	0	0	0	0	0	0
7	Maintenance & Repair expense (incl Contract Operator)	63,107	0	0	0	7,110	0	0	0	0	0	0	0
8	Landscape & Mowing & Effluent expenses	46,009	0	0	0	0	0	0	0	0	0	(4,020)	0
9	Utilities expense	32,006	0	0	0	0	0	(25,693)	0	0	0	0	0
10	Chemicals for treatment	1,772	0	0	0	0	0	0	0	0	0	0	0
11	Testing Fees	4,720	0	0	0	0	0	0	0	0	0	0	0
12	Permit Fees	1,310	0	0	0	0	0	0	0	0	0	0	0
13	Sludge Removal expense	65,100	0	0	0	0	(15,400)	0	0	0	0	0	0
14	Other Expenses: Professional expenses	11,199	0	0	0	0	0	0	0	0	0	0	(1,405)
15	Other Expenses: Insurance Expense	13,827	0	0	0	0	0	0	0	0	0	0	0
16	Other Expenses: Bad Debt Expense	1,738	0	0	0	0	0	0	0	0	0	0	0
17	Other Expenses: Miscellaneous Expense	61	0	0	0	0	0	0	0	0	0	0	0
18	Regulatory expense	0	0	0	0	0	0	0	0	0	0	0	0
19	<b>Total O&amp;M expenses (Sum of L5 thru L18)</b>	<b>299,093</b>	<b>0</b>	<b>2,390</b>	<b>1,440</b>	<b>7,110</b>	<b>(15,400)</b>	<b>(25,693)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,020)</b>	<b>(1,405)</b>
<b>Depreciation and Taxes:</b>													
20	Depreciation expense	70,108	0	0	0	0	0	0	0	0	0	0	0
21	Amortization of CIAC	0	0	0	0	0	0	0	0	0	0	0	0
22	Property taxes	437	0	0	0	0	0	0	0	0	0	0	0
23	Payroll Taxes	3,192	0	0	0	0	0	0	0	0	0	0	0
24	Other Taxes	0	0	0	0	0	0	0	0	0	0	0	0
25	Regulatory Fee	365	0	0	0	0	0	0	0	0	0	0	0
26	State income tax	0	0	0	0	0	0	0	0	0	0	0	0
27	Federal income tax	0	0	0	0	0	0	0	0	0	0	0	0
28	<b>Total depreciation and taxes (Sum of L20 thru L27)</b>	<b>74,133</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
29	<b>Total operating revenue deductions (L19 + L28)</b>	<b>373,225</b>	<b>0</b>	<b>2,390</b>	<b>1,440</b>	<b>7,110</b>	<b>(15,400)</b>	<b>(25,693)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,020)</b>	<b>(1,405)</b>
30	<b>Net operating income for a return (L4 - L29)</b>	<b>(\$133,831)</b>	<b>(\$376)</b>	<b>(\$2,390)</b>	<b>(\$1,440)</b>	<b>(\$7,110)</b>	<b>\$15,400</b>	<b>\$25,693</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,020</b>	<b>\$1,405</b>

[1] Per Company's October 31, 2022 General Ledger.  
[2] Exhibit I, Schedule 3-1.  
[3] Exhibit I, Schedule 3-2.  
[4] Exhibit I, Schedule 3-3.  
[5] Exhibit I, Schedule 3-4.  
[6] Exhibit I, Schedule 3-5.  
[7] Exhibit I, Schedule 3-6.  
[8] Exhibit I, Schedule 3-7.  
[9] Exhibit I, Schedule 3-8.  
[10] Adjustment to Regulatory fee based on statutory rate of .13%.  
[11] Adjustment to include the Annual Report Fee to the Secretary of State.  
[12] Exhibit I, Schedule 3-9.  
[13] Exhibit I, Schedule 2A.  
[14] Exhibit I, Schedule 3-2, Line 4.  
[15] Sum of Column (b) thru Column (r).  
[16] Column (a) plus Column (e).

904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
**CALCULATION OF UPDATED NET OPERATING  
INCOME FOR A RETURN**  
For The Test Year Ended October 31, 2022

Exhibit 1  
Schedule 3A  
Page 2 of 2

Line No.	Item	COMPANY PRO FORMA ADJUSTMENTS							Proforma Balance (t)
		Insurance Expense (m)	Regulatory Fee (n)	Miscellaneous Expense (o)	Regulatory Expense (p)	Depreciation (q)	Payroll Taxes (r)	Total Adjustments (s)	
<b>Operating Revenues:</b>									
1	Service revenues	\$0	\$0	\$0	\$0	\$0	\$0	(\$376)	\$238,882
2	Miscellaneous revenues	0	0	0	0	0	0	0	137
3	Uncollectible accounts	0	0	0	0	0	0	0	0
4	<b>Total operating revenues (Sum of L1 thru L3)</b>	0	0	0	0	0	0	(376)	239,019
<b>Operation &amp; Maintenance Expenses:</b>									
5	Salary expense	0	0	0	0	0	0	2,390	41,390
6	Administrative & Office expense (except salaries)	0	0	0	0	0	0	1,440	20,684
7	Maintenance & Repair expense (incl Contract Operator)	0	0	0	0	0	0	7,110	70,218
8	Landscape & Mowing & Effluent expenses	0	0	0	0	0	0	(4,020)	41,989
9	Utilities expense	0	0	0	0	0	0	(25,693)	6,313
10	Chemicals for treatment	0	0	0	0	0	0	0	1,772
11	Testing Fees	0	0	0	0	0	0	0	4,720
12	Permit Fees	0	0	0	0	0	0	0	1,310
13	Sludge Removal expense	0	0	0	0	0	0	(15,400)	49,700
14	Other Expenses: Professional expenses	0	0	0	0	0	0	(1,405)	8,794
15	Other Expenses: Insurance Expense	0	0	0	0	0	0	0	13,827
16	Other Expenses: Bad Debt Expense	0	0	0	0	0	0	0	1,738
17	Other Expenses: Miscellaneous Expense	0	0	200 (11)	0	0	0	200	281
18	Regulatory expense	0	0	0	8,191	0	0	8,191	8,191
19	<b>Total O&amp;M expenses (Sum of L5 thru L18)</b>	0	0	200	8,191	0	0	(27,186)	271,906
<b>Depreciation and Taxes:</b>									
20	Depreciation expense	0	0	0	0	(2,470)	0	(2,470)	67,639
21	Amortization of CIAC	0	0	0	0	0	0	0	0
22	Property taxes	0	0	0	0	0	0	0	437
23	Payroll Taxes	0	0	0	0	0	183	183	3,375
24	Other Taxes	0	0	0	0	0	0	0	0
25	Regulatory Fee	0	(84)	0	0	0	0	(84)	311
26	State income tax	0	0	0	0	0	0	0	0
27	Federal income tax	0	0	0	0	0	0	0	0
28	<b>Total depreciation and taxes (Sum of L20 thru L27)</b>	0	(84)	0	0	(2,470)	183	(2,371)	71,761
29	<b>Total operating revenue deductions (L19 + L28)</b>	0	(84)	200	8,191	(2,470)	183	(29,557)	343,668
30	<b>Net operating income for a return (L4 - L29)</b>	\$0	\$84	(\$200)	(\$8,191)	\$2,470	(\$183)	\$29,182	(\$104,649)



**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**ADJUSTMENT TO SERVICE REVENUES**  
For The Test Year Ended October 31, 2022

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Number of Customers	795 [1]
2	Current Monthly Rate Per Customer	\$25.04 [2]
3	Months	<u>12</u>
4	Annualized Service Revenues (L1 x L2 x L3)	\$238,882
5	Amount included in Test Year	239,257 [3]
6	Adjustment to Service Revenues	<u><u>(\$376)</u></u>

[1] Current customers per Company.

[2] Current Tariffed rate per Docket No. W-1141, Sub 6.

[3] Per Company.

**904 Georgetown Treatment Plant LLC**  
 Docket No. W-1141, Sub 8  
**ADJUSTMENT TO SALARY EXPENSE**  
 For The Test Year Ended October 31, 2022

Exhibit I  
 Schedule 3-2

Line No.	Item	Amount
1	2022 Salary expense	\$39,000 [1]
2	2023 Salary expense	<u>41,390</u> [2]
3	Increase in Salary expense (L2 - L1)	<u>2,390</u>
4	Increase in Payroll Taxes (L3 X 7.65%)	<u><u>\$183</u></u>

	Annual
<b>[1] Breakdown per Company - Ties to 2022 General Ledger:</b>	
Tim Tilma - Manager of the 904 Georgetown - Acct 9560	\$15,000
E.B. Otmar - General & Admin Staff - Acct 9561	12,000
Tonda Hockenbury - G&A - Accts Payable - Acct 9561	<u>12,000</u>
	<u><u>\$39,000</u></u>
<b>[2] 2023 Salaries</b>	
Tim Tilma - Manager of the 904 Georgetown - Acct 9560	\$15,000
E.B. Otmar - General & Admin Staff - Acct 9561	16,640
Tonda Hockenbury - G&A - Accts Payable - Acct 9561	<u>9,750</u>
	<u><u>\$41,390</u></u>

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**ADJUSTMENT TO ADMINISTRATIVE & OFFICE EXPENSE**  
For The Test Year Ended October 31, 2022

<u>Line No.</u>	<u>Item</u>	<u>2022 Test Year Amount</u> [1]	<u>2023 Company Amounts</u> [2]	<u>Pro Forma Adjustment</u> [3]
		(a)	(b)	(c)
<b>Administrative &amp; Office Expense Increases:</b>				
1	Monthly Office Rent X 12 months	\$12,000	\$13,200	\$1,200
2	Monthly Rental Equipment Office	<u>2,640</u>	<u>2,880</u>	<u>240</u>
3	Totals (L1 + L2)	<u><u>\$14,640</u></u>	<u><u>\$16,080</u></u>	<u><u>\$1,440</u></u>

[1] Per Report\_from\_904\_Georgetown\_Treatment\_Plant^LJ\_LLC - General Ledger @ 10.31.22

Total 6220-00 · RENTAL OFFICE SPACE	\$12,000
Total 6230-00 · RENT EQUIP/MACHINES-OFFICE	<u>2,640</u>
	<u><u>\$14,640</u></u>

[2] Per Company.

[3] Column (b) - minus Column (a).

Exhibit I  
Schedule 3-4

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**ADJUSTMENT TO MAINTENANCE & REPAIR EXPENSES**  
For The Test Year Ended October 31, 2022

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Test Year Maintenance & Repair Expenses at October 31, 2022	\$63,107 [1]
2	Remove Acct 6055-PH · PUMPHOUSE SHARED UPKEEP/REPAIRS	(4,800) [2]
3	Remove and Capitalize: Pumps and Motor -6052-00 · EQUIP. MAINT. & REPAIRS	(4,308) [5]
<b>Adjustment to Normalize Unexpected M&amp;R Expenses for the 12 ME October 31st:</b>		
4	2020	\$26,375 [3]
5	2021	4,000 [3]
6	2022	625 [3]
7	Total (Sum Lines 4-6)	<u>31,000</u>
8	3-Year Average	10,333
9	Less: Test year - Acct 6335 - Unexpected Expense - M&R	<u>625</u>
10	Adjustment to normalize unexpected expenses (L8 - L9)	9,708
<b>Adjustment to Normalize Equipment Repair Expenses for the 12 ME October 31st:</b>		
11	2020	\$28,614 [4]
12	2021	28,785 [4]
13	2022	18,935 [5]
14	Total (Sum of Lines 11-13)	<u>76,334</u>
15	3-Year Average (L14/3)	25,445
16	Less: Adjusted Test Year Acct 6052-00 · EQUIP. MAINT. & REPAIRS	<u>18,935</u>
17	Adjustment to normalize unexpected expenses (L15- L16)	<u>6,510</u>
18	Maintenance & Repair Expenses Per Company (L1 + L2 + L3 + L10 + L17)	<u><u>\$70,218</u></u>

[1] Per Report\_from\_904\_Georgetown\_Treatment\_Plant^LJ\_LLC - General Ledger @ 10.31.22  
Test Year M&R Expenses General Ledger @ 10/31/2022:

6335-00 · UNEXPECTED EXP/ACCIDENTIAL SPIL	\$625
6055-PH · PUMPHOUSE SHARED UPKEEP/REAPIRS	4,800
6052-00 · EQUIP. MAINT. & REPAIRS	23,242
8780-00 · TRMT.PLANT OPERATIONS	34,440
	<u>\$63,107</u>

[2] Adjustment to remove per Public Staff recommnedation in Docket No. W-1141, Sub 5.

[3] Per General Ledger Account 6335-00 · UNEXPECTED EXP/ACCIDENTIAL SPIL - for each respective year.

[4] Per General Ledger Acct 6052-00 · EQUIP. MAINT. & REPAIRS - for each respective year, unless otherwise noted.

[5] Per Report\_from\_904\_Georgetown\_Treatment\_Plant^LJ\_LLC - General Ledger @ 10.31.22  
Test Year M&R Expenses General Ledger @ 10/31/2022:

6052-00 · EQUIP. MAINT. & REPAIRS	\$23,242
<u>Reclassify &amp; capitalize:</u>	
Purchase of Pump	1,519
Purchase zoe E295-2in flange 2 hp swr pump	1,513
Purchase 10 horsepower motor	1,276
	<u>4,308</u>
Adjusted Test Year Acct 6052-00 · EQUIP. MAINT. & REPAIRS	<u><u>\$18,935</u></u>

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**ADJUSTMENT TO SLUDGE REMOVAL EXPENSE**  
For The Test Year Ended October 31, 2022

Exhibit I  
Schedule 3-5

Line No.	Item	Amount	[1]
		(a)	
	<b>Sludge Removal Expenses for the 12-Month Period Ended October 31st :</b>		
1	2021	\$34,300	
2	2022	65,100	
3	Total Sludge Removal Expense	99,400	
4	Normalize over 2 years	2	
5	Normalized Level of Sludge Removal Expenses (L3/L4)	49,700	
6	Test Year Sludge Removal Expense	65,100	
7	Proforma Adjustment to Annualize Sludge Removal Expenses (L5 - L6)	(\$15,400)	

[1] Per General Ledger Account - for each respective year, unless otherwise noted.

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**ADJUSTMENT TO UTILITIES EXPENSE**  
For The Test Year Ended October 31, 2022

<u>Line No.</u>	<u>Item</u>	<u>Total Amount</u>
1	Test Year Utilities Expenses	\$32,006 [1]
	<b>Expenses Removed per Prior Rate Case:</b>	
2	6310-00 - Electric	(18,500) [2]
3	6310-PH - Pumphouse Electric	(7,217) [2]
	<b>Expenses to Increase:</b>	
4	Cell phone bill \$28 to \$30 per month X 12 months	24 [3]
5	Adjustment to Utilities Expense (L2 + L3 + L4)	<u>(25,693)</u>
6	Total Utilities Expense (L1+L5)	<u><u>\$6,313</u></u>

[1] Per Report\_from\_904\_Georgetown\_Treatment\_Plant^LJ\_LLC - General Ledger @ 10.31.22

6240-00 · OFFICE PHONE	\$1,560
6245-00 · PHONE EXPENSE CELL	336
6250-00 · Phone Sub Stations	2,521
6280-00 · OFFICE ELECTRIC	1,872
6310-00 · ELECTRIC - 904 Plant	18,500
6310-PH · PUMPHOUSE ELECTRIC OFFSET	7,217
Total Test Year Utilities Expenses	<u><u>\$32,006</u></u>

[2] Adjustment to remove per Public Staff recommendation in Docket No. W-1141, Sub 5.

[3] Per Company Budget / Records.

Exhibit I  
Schedule 3-7

**904 Georgetown Treatment Plant LLC**  
Docket No. W-1141, Sub 8  
**ADJUSTMENT TO LANDSCAPE, MOWING & EFFLUENT EXPENSES**  
For The Test Year Ended October 31, 2022

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Test Year Landscape, Mowing & Effluent Expenses	\$46,009 [1]
	<b>Expenses Removed per Prior Rate Case:</b>	
2	6327-00 · USE OF IRRIGATION SYSTEM	(\$9,900) [2]
3	6326-00 · LAND LEASE WASTEWATER APPLICATIONS	(4,500) [2]
4	Total Adjustment (L2 + L3)	(14,400)
	<b>Effluent Application Charge:</b>	
5	Sub 4 Effluent Water Application Charge @ \$1,653.08	\$19,837 [3]
6	New Effluent Water Application Charge @ \$2,518.05	30,217 [4]
7	Total Adjustment (L6 - L5)	10,380
8	Landscape, Mowing & Effluent Expenses Per Company (L1 + L4 + L7)	<u>\$31,609</u>

[1] Per Report\_from\_904\_Georgetown\_Treatment\_Plant^LJ\_LLC - General Ledger @ 10.31.22  
Test Year Landscape, Mowing & Irrigation per General Ledger @ 10/31/2022:

6325-00 · EFFLUENT WATER APPLICATIONS	\$19,836.96
6327-00 · USE OF IRRIGATION SYSTEM	9,900.00
6325-00 · EFFLUENT WATER APPLICATIONS	4,500.00
6340-00 · GROUNDS & LANDSCAPING	2,100.00
6345-00 · MOWING COSTS	\$9,672
Total	<u>\$46,009</u>

[2] Per Georgetown Treatment Plant LLC - General Ledger @ 10-31-2022

[3] Per Effluent Agreement charge approved in Docket No. W-1141, Sub 4.

[4] Effluent Agreement-Related Charges:	<u>GL Account</u>	<u>2023</u>
Land Lease Wastewater Applications	6326	4,500
Electric Power for Irrigation	6310	18,500
Irrigation Pump Maint	6310-PH	7,217
Total Effluent Agreement - Related Costs		<u>30,217</u>
Monthly Charge (Total Charges divided by 12 months)		<u>\$ 2,518.05</u>

**904 Georgetown Treatment Plant LLC**  
 Docket No. W-1141, Sub 8  
**ADJUSTMENT TO PROFESSIONAL EXPENSES**  
 For The Test Year Ended October 31, 2022

Exhibit I  
 Schedule 3-8

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>	
1	Professional Expenses - Per General Ledger - Accounting & Architect/Engineers & Legal	\$11,199	[1]
2	Reclassify Partial Engineering Fees from Test Year to Regulatory Expense for Rate Case Filing	(1,405)	[2]
3	Per Company Amount - Professional Expenses (L1 + L2)	<u>\$9,794</u>	

[1] Per Report\_from\_904\_Georgetown\_Treatment\_Plant^LJ\_LLC - General Ledger @ 10.31.22:

8265-00 · PROF. FEES-ACCOUNTING	\$8,200
8260-00 · PROF. FEES-ARCHITECTS/ENGINEERS	\$2,810
8270-00 · PROF. FEES-LEGAL	\$189

[2] Reclassified one-half of the engineering fees based on review of services performed.



904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
**ADJUSTMENT TO REGULATORY EXPENSE**  
For The Test Year Ended October 31, 2022

<u>Line No.</u>	<u>Item</u>	<u>Actuals @</u> <u>10.31.22</u> [1]	<u>Estimates</u> [2]	<u>Total</u> [3]
		(a)	(b)	(c)
	<b>Regulatory Expense per Application:</b>			
1	Legal Services	\$0	\$20,000	\$20,000
2	Accounting & Engineering Consultants	1,405	6,000	7,405
3	Rate Case Labor Allocations	0	0	0
4	Notices, Printing envelopes, Postage, Filing fee and Miscellaneous	<u>0</u>	<u>1,384</u>	<u>1,384</u>
5	Total Regulatory Expense (Sum of L1 thru L4)	<u>\$1,405</u>	<u>\$27,384</u>	\$28,789
6	Amortization Period			<u>3</u>
7	Regulatory Expense per Company (L5 / L6)			\$9,596
8	Amount per Test Year			<u>1,405</u> [1]
9	Adjustment to Regulatory Expense			<u><u>\$8,191</u></u>

[1] Per Company's general ledger records & Schedule 3-8 Professional Fees

[2] Estimates to be updated based on actual regulatory expenses. We plan to update these estimated expenses either by the close of the hearing or in a late-filed ex

[3] Column (a) + Column (b), unless otherwise footnoted.

904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
**CALCULATION OF INCOME TAXES**  
For The Test Year Ended October 31, 2022

Line No.	Item	Per Books [1] (a)	After Pro Forma Adjustments [3] (b)	Proposed Rates [4] (c)
1	Operating revenues	\$239,394	\$239,019	\$375,718
	Operating revenue deductions:			
2	Operating & maintenance expenses	299,093	271,906	271,906
3	Depreciation expense	70,108	67,639	67,639
4	Amortization of CIAC	0	0	0
5	Property taxes	437	437	437
6	Payroll taxes	3,192	3,375	3,375
7	Other Taxes	0	0	0
8	Regulatory Fee	395	311	488
9	Interest expense	0	0	0
10	Total deductions (Sum of L2 thru L9)	373,225	343,668	343,845
11	Taxable income (L1 - L10)	(133,831)	(104,649)	31,873
12	State income tax (L11 x 2.5%)	0	0	797
13	Federal taxable income after state income tax (L1 - L12)	(133,831)	(104,649)	31,076
14	Federal income tax (L13 x 21%)	0	0	6,526
15	Net amount (L11 - L12 - L14)	(133,831)	(104,649)	24,550
16	Add: Interest expense	0 [2]	0 [2]	0 [2]
17	Net income for a return (L15 + L16)	(\$133,831)	(\$104,649)	\$24,550

[1] Exhibit I, Schedule 3, Column (a).

[2] Line 9

[3] Exhibit I, Schedule 3, Column (c).

[4] Exhibit I, Schedule 3, Column (e).

904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
**CALCULATION OF REVENUE REQUIREMENT**  
For The Test Year Ended October 31, 2022

Line No.	Item	Rate Base Method (a)	Retention Factor (b)	Revenue Requirement (c)	Operating Ratio Method (d)	Retention Factor (e)	Revenue Requirement (f)
<b>Operating revenue deductions:</b>							
1	Operating & maintenance expenses	\$271,906			271,906		
2	Depreciation expense	67,639			67,639		
3	Amortization of CIAC	0			0		
4	Property taxes	437			437		
5	Payroll taxes	3,375			3,375		
6	Other Taxes	0			0		
7	Regulatory Fee	0			0		
8	Total operating revenue deductions	<u>\$343,357</u>	0.998700	\$343,804	<u>343,357</u>	0.998700	343,804
<b>Net operating income for a return:</b>							
9	Debt service return	\$4,868	0.998700	4,874			
10	Equity return	\$10,601	0.769249	13,781	\$24,550	0.769249	31,914
11	Revenue requirement			<u>\$362,459</u>			<u>\$375,718</u>
12	<b>Company Requested Revenue Requirement</b>			<u>\$375,718</u>			

Exhibit I  
Schedule 4A

904 Georgetown Treatment Plant LLC  
Docket No. W-1141, Sub 8  
CALCULATION OF OPERATING RATIOS  
For The Test Year Ended October 31, 2022

Line No.	Item	Present Rates (a)	After Pro Forma Rates (b)	Company Proposed Rates (c)
<u>Interest expense, regulatory fee, and income taxes included:</u>				
1.	Gross operating revenues	\$239,394 [1]	\$239,019 [5]	\$375,718 [9]
2.	Operating expenses	<u>373,225 [2]</u>	<u>343,668 [6]</u>	<u>351,168 [10]</u>
3.	Operating ratios (L2 / L1)	<u>155.90%</u>	<u>143.78%</u>	<u>93.47%</u>
<u>Interest expense, regulatory fee, and income taxes excluded:</u>				
4.	Gross operating revenues	\$238,999 [3]	\$238,708 [7]	\$367,907 [11]
5.	Operating expenses	<u>372,830 [4]</u>	<u>343,357 [8]</u>	<u>343,357 [12]</u>
6.	Operating ratios (L5 / L4)	<u>156.00%</u>	<u>143.84%</u>	<u>93.33%</u>

[1] Exhibit I, Schedule 3, Line 4, Column (c).  
 [2] Exhibit I, Schedule 3, Line 29, Column (c).  
 [3] Exhibit I, Schedule 3, Line 4 - Line 25 - Line 26 - Line 27, Column (a).  
 [4] Exhibit I, Schedule 3, Line 29 - Line 25 - Line 26 - Line 27, Column (a).  
 [5] Exhibit I, Schedule 3, Line 4, Column (e).  
 [6] Exhibit I, Schedule 3, Line 29, Column (e).  
 [7] Exhibit I, Schedule 3, Line 4 - Line 25 - Line 26 - Line 27, Column (c).  
 [8] Exhibit I, Schedule 3, Line 29 - Line 25 - Line 26 - Line 27, Column (c).  
 [9] Exhibit I, Schedule 3, Line 4, Column (e).  
 [10] Exhibit I, Schedule 3, Line 29, Column (e).  
 [11] Exhibit I, Schedule 3, Line 4 - Line 25 - Line 26 - Line 27, Column (e).  
 [12] Exhibit I, Schedule 3, Line 29 - Line 25 - Line 26 - Line 27, Column (e).

**NORTH CAROLINA UTILITIES COMMISSION  
RALEIGH**

**DOCKET NO. W-1141, SUB 8**

**IN THE MATTER OF**

**APPLICATION BY 904 GEORGETOWN TREATMENT PLANT, LLC  
FOR AUTHORITY TO ADJUST AND INCREASE RATES FOR PROVIDING  
SEWER UTILITY SERVICE IN ALL ITS SERVICE AREA  
IN BRUNSWICK COUNTY, NORTH CAROLINA**

**PRE-FILED DIRECT TESTIMONY**

**OF**

**TIMOTHY P. TILMA**

**ON BEHALF OF**

**904 GEORGETOWN TREATMENT PLANT, LLC**

**JULY 6, 2023**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE**  
2 **RECORD.**

3 A. My name is Timothy P. Tilma ( Tim ), and my business address is 800 N. Sandpiper  
4 Club Drive, Sunset Beach, North Carolina 28468.

5 **Q. PLEASE STATE YOUR POSITION WITH 904 GEORGETOWN**  
6 **TREATMENT PLANT, LLC.**

7 A. I am the Manager of 904 Georgetown Treatment Plant, LLC (“904 Georgetown”  
8 or “the Company”).

9 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES WITH 904**  
10 **GEORGETOWN.**

11 A. My responsibilities with 904 Georgetown include general oversight of 904  
12 Georgetown’s day-to-day operations, and direct oversight of all corporate,  
13 compliance, finance, and regulatory matters related to 904 Georgetown.

14 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL**  
15 **BACKGROUND.**

16 A. In addition to being the Manager of the 904 Georgetown Wastewater Treatment  
17 Plant, I am the Manager of the following business entities: I am the General  
18 Manager of North Star Carolina Corporation, d/b/a Sandpiper Bay Golf & Country  
19 Club (Sandpiper Bay) – which is a company comprised of the Golf Club and the  
20 Shared Amenities, including the Sandpiper Bay Homeowners Association, and the  
21 Sunset Village Condo Association. The purpose of the Golf Club is to provide a  
22 quality golf experience and lifestyle to the Members and Guests that play golf on

1 the courses, and to provide a reasonable return on investment to the Company  
2 Owner. The purpose of the Shared Amenities is to prudently manage the budget  
3 while maintaining the value and integrity of the neighborhood to include an  
4 attractive front entry to the neighborhood, the 0.7-mile entry road, and the front  
5 entry guard gate and gazebo.

6 I have a degree in Social Science, B.A. 1978, from Alma College in Alma,  
7 Michigan, and a Masters Degree in Physical Education, M.S. 1983 from Western  
8 Michigan University in Kalamazoo, Michigan. I have managed Tennis and Golf  
9 Facilities for over 45 years and have a record of successful operations. I have shown  
10 leadership at many levels and have served on several boards and committees and  
11 am currently on the Board of Directors of the Myrtle Beach Golf Course Owners  
12 Association, and the North Carolina Golf Course Owners Association. I am a  
13 Member of the Professional Golf Association of America (PGA of America). This  
14 is a national association of 23,000 golf professionals who manage, teach, and  
15 promote the game of golf. I have been a member for 35 years.

16 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE IN**  
17 **WASTEWATER UTILITIES.**

18 A. I have been the Manager of 904 Georgetown for 15.5 years. I manage our Certified  
19 Wastewater Operator, who advises me daily as to plant operations. I also manage  
20 the Accounting Office of 904 Georgetown that is responsible for billing and  
21 collection as well as all accounts payable and receivable functions.

1                    **GENERAL INFORMATION ABOUT 904 GEORGETOWN**

2        **Q.        WHEN DID 904 GEORGETOWN ACQUIRE ITS UTILITY FRANCHISE**  
3                    **IN NORTH CAROLINA?**

4        A.        The Commission granted a certificate of public convenience and necessity  
5                    (“CPCN”) to 904 Georgetown to provide wastewater utility service on November  
6                    5, 2001, in Docket No. W-1141, Sub 0.

7        **Q.        HOW MANY WASTEWATER CUSTOMERS DID 904 GEORGETOWN**  
8                    **SERVE AS OF THE END OF THE TEST YEAR?**

9        A.        At the end of the Test Year of October 31, 2022, 904 Georgetown served 795  
10                    wastewater customers, all of whom are residential.

11       **Q.        HAS 904 GEORGETOWN HAD ANY RATE INCREASES SINCE**  
12                    **RECEIVING ITS CERTIFICATE OF PUBLIC CONVENIENCE AND**  
13                    **NECESSITY IN 2001?**

14       A.        Yes. 904 Georgetown filed and received a rate increase in 2007 for its wastewater  
15                    utility system. The rates have not been adjusted since 2007 except for a decrease  
16                    ordered by the Commission in 2015, which was the result of changes to the  
17                    corporate state income tax rate related to House Bill 998 in Docket No. W-1141  
18                    Sub 6.

19       **Q.        WHAT IS THE PURPOSE OF YOUR TESTIMONY?**



1 A. The purpose of my testimony is to address certain operational and financial aspects  
2 of 904 Georgetown's utility operation and help explain the Company's need for a  
3 rate increase.

4 **Q. WHAT ROLE HAVE YOU HAD IN THE PREPARATION OF THE**  
5 **RATE CASE APPLICATION?**

6 A. I have retained Peedin and Perry Consulting, LLC ("Peedin and Perry"), to assist  
7 with preparation of the rate case application, testimony, and exhibits in this matter.  
8 I have worked closely with them in providing the information needed to complete  
9 the application, and I have reviewed their work.

10 **Q. WHAT TEST YEAR PERIOD DOES THE COMPANY USE IN ITS**  
11 **APPLICATION IN THIS DOCKET?**

12 A. 904 Georgetown is utilizing a Test Year in this proceeding of the twelve months  
13 ended October 31, 2022.

14 **AFFILIATE RELATIONSHIPS**

15 **Q. WHAT IS THE RELATIONSHIP OF THE OTHER BUSINESSES YOU**  
16 **MANAGE TO 904 GEORGETOWN?**

17 A. North Star Carolina Corporation d/b/a Sandpiper Bay Golf and Country Club  
18 ("Sandpiper Bay") is a wholly owned subsidiary of Matrix Development Company,  
19 Inc. ("Matrix"). 904 Georgetown is owned by North Star Management, Inc, and  
20 North Star Management, Inc. is also a wholly owned subsidiary of Matrix.

1 The Sandpiper Bay is a customer of 904 Georgetown, and the offices of both  
2 companies, Sandpiper Bay and 904 Georgetown, are in the Sandpiper Bay  
3 Clubhouse.

4 The Sandpiper Bay Golf Club has an agreement with the 904 Georgetown to use  
5 the treated water that the plant produces. This relationship is detailed in the  
6 "Effluent Easement and Irrigation Agreement" that was approved in Docket No.  
7 W-1141, Sub 4 and was also filed in this docket.

8 **Q. HAVE YOU FILED COPIES OF ALL CONTRACTS BETWEEN 904**  
9 **GEORGETOWN AND AFFILIATED ENTITIES FOR APPROVAL BY**  
10 **THE NORTH CAROLINA UTILITIES COMMISSION TO THE EXTENT**  
11 **REQUIRED BY N.C. GENERAL STATUTE § 62-153?**

12 **A.** Yes. We have filed the revised Effluent Easement and Irrigation Agreement that  
13 was initially approved in Docket No. W-1141, Sub 4.

14 **Q. DOES 904 GEORGETOWN MAKE ANY PAYMENTS OR PROVIDE ANY**  
15 **OTHER COMPENSATION OR VALUE TO AFFILIATES BEYOND**  
16 **WHAT IS STATED IN COMMISSION-APPROVED CONTRACTS?**

17 **A.** There are certain monthly expenses that 904 Georgetown shares with Sandpiper  
18 Bay such as the rental of office space, bookkeeping and accounting services, and  
19 management fees which are based on the number of hours spent working on 904  
20 Georgetown each week. 904 Georgetown also pays Sandpiper Bay for certain other  
21 administrative services such as office supplies, phone expenses and equipment

1 rental, etc. This was true in our last rate case and continues today. The services are  
2 based on actual costs, and there is no markup from the affiliate.

3 **Q. WHAT IS THE CURRENT STATUS OF THE EFFLUENT EASEMENT**  
4 **AND IRRIGATION AGREEMENT THAT WAS FILED IN DOCKET NO.**  
5 **W-1141, SUB 4?**

6 A. The Company is still operating under the Effluent Easement and Irrigation  
7 Agreement (“Effluent Agreement”) that was filed in Docket No. W-1141, Sub 4.  
8 No changes have been made to the services or charges approved in the Effluent  
9 Agreement. However, it has been 16 years since the Effluent Agreement charge  
10 was approved by the Commission. Clearly, the actual costs have increased  
11 significantly during those 16 years. For that reason, the Company has updated the  
12 Effluent Agreement to reflect the appropriate level of expenses for the Effluent  
13 water application charge. This charge is established in the Effluent Agreement and  
14 is based on actual cost, and there is no mark up. The new Effluent Agreement  
15 provides that the Effluent water application charge will be reset annually based on  
16 actual cost experience during the previous year.

17 **Q. DOES THE EFFLUENT AGREEMENT PROVIDE BENEFITS TO 904**  
18 **GEORGETOWN AND ITS CUSTOMERS?**

19 A. Yes, it does. In many of these arrangements, it is the golf property that receives most  
20 of the benefits because the golf course needs wastewater effluent spray to water the  
21 golf facilities. Our situation is different. Sandpiper Bay Golf and Country Club has

1 adequate irrigation ponds and resources to handle its own needs. However, 904  
2 Georgetown needs the ability to spray effluent on the golf course to assure that the  
3 Company has adequate capability to dispose of its effluent properly. It is for that  
4 reason that the Company pays Sandpiper Bay for accommodating that need, which  
5 benefits both 904 Georgetown and its wastewater customers.

6 **Q. DOES 904 GEORGETOWN OWN OR LEASE ALL THE PERSONAL  
7 AND REAL PROPERTY NEEDED TO PROVIDE UTILITY SERVICE?**

8 **A.** Yes. 904 Georgetown owns all the utility property needed to provide utility  
9 service, except for the spray areas needed to dispose of the effluent.

10 **OPERATIONS AND COMPLIANCE**

11 **Q. PLEASE DESCRIBE THE WASTEWATER SYSTEM THAT 904  
12 GEORGETOWN OPERATES.**

13 **A.** 904 Georgetown uses ground piping under the neighborhood roads that collect  
14 wastewater from the residential homes and condominium units. These sewer lines  
15 connect to one of three lift stations that lift the wastewater up to assist in  
16 transporting it to the main 904 Georgetown Plant location. The plant is operated in  
17 compliance with the Division of Water Quality Permit #WQ0013398, which was  
18 recently renewed and is in effect until Jan. 31, 2027. The 904 Georgetown office  
19 has a map of all the sewer lines that are part of the system.

20 **Q. PLEASE DESCRIBE THE ENVIRONMENTAL COMPLIANCE RECORD  
21 OF 904 GEORGETOWN.**

1    **A.**     During my 15.5 years of Managing the 904 Georgetown Plant, the Company has  
2           received two Notices of Violation and one Notice of Deficiency. The first violation  
3           was in February 2011 for the aeration basin and filters that needed repair and  
4           replacement. The repairs were made within three months. The second violation was  
5           in October 2019 for nitrogen and ammonia levels that exceeded the monthly  
6           average. This violation was corrected within a week.

7           The Company received a Notice of Deficiency in October 2021 after the September  
8           2021 Inspection. We were directed to provide plans for repairing and cleaning the  
9           aeration basin, and the splitter box, and the automatic backwashing function. We  
10          fulfilled these repair requests within 3 months. There have been no other notices.

11    **Q.**     **HAS 904 GEORGETOWN RECEIVED ANY CUSTOMER COMPLAINTS**  
12           **ABOUT QUALITY OF SERVICE?**

13    **A.**     On occasion, 904 Georgetown will receive an informal complaint that a resident's  
14           toilet is backing up. The Company will inspect the main line that services that home  
15           and the line that belongs to 904 Georgetown. In most cases, the backup is caused  
16           by a problem in the resident's pipes within their own personal system. In these  
17           cases, the Company educates the resident about the problem, the possible location  
18           and gives them recommendations on what action to take – perhaps to call a local  
19           plumber. There have been no complaints against 904 Georgetown filed with the  
20           Commission.

1 Q. HAS 904 GEORGETOWN MADE ANY RECENT CAPITAL  
2 IMPROVEMENTS IN ITS WATER SYSTEMS?

3 A. In addition to the normal pump replacements, in the past three years 904  
4 Georgetown has had to replace a control panel, a generator and DEQ required 904  
5 Georgetown to develop a mapping of the entire sewer treatment system.

6 Q. IN YOUR OPINION, IS 904 GEORGETOWN PROVIDING ADEQUATE  
7 UTILITY SERVICE TO ITS CUSTOMERS?

8 A. Yes, it is. This is evidenced by the quick response to customer service issues, DEQ  
9 Notices, informal customer complaints, and the lack of any formal complaints  
10 being filed with the Commission.

11 REVENUE REQUIREMENT AND RATE OF RETURN

12 Q. HAS 904 GEORGETOWN SUSTAINED INCOME LOSSES FOR ITS  
13 SEWER SYSTEM DURING THE TEST YEAR?

14 A. Yes. 904 Georgetown experienced a net income loss from sewer operations of  
15 (\$133,831) during the Test Year.

16 Q. WHAT RATE OF RETURN DOES 904 GEORGETOWN'S CURRENT  
17 RATES YIELD?

18 A. 904 Georgetown's current rates yield a per books rate of return on operating  
19 revenue deductions of (35.90%) for sewer operations, and an after proforma rate  
20 of return of (30.48%).

1    **Q.   PLEASE EXPLAIN THE REASONS THAT 904 GEORGETOWN**  
2    **SUSTAINED INCOME LOSSES DURING THE TEST YEAR.**

3    A.   904 Georgetown's net income losses during the Test Year are due to operating  
4    expense cost increases and are the result of not having an approved rate increase  
5    since 2007. 904 Georgetown filed an application for a general rate increase in May  
6    2022, but the Public Staff advised the Company that the Application did not comply  
7    with certain requirements, and a decision was made to withdraw that Application  
8    and re-file another Application at a later date. This docket is the result of those  
9    efforts.

10   **Q.   WHAT IS THE REVENUE INCREASE REQUESTED BY 904**  
11   **GEORGETOWN?**

12   A.   904 Georgetown's current per books sewer operating revenues are \$239,019, and  
13   904 Georgetown's current expenses after proforma adjustments are \$343,668. 904  
14   Georgetown proposes an increase in sewer revenues of \$136,700. That level of  
15   increase will result in total sewer revenue of \$375,718, which represents an increase  
16   in revenue of 36.38% for sewer operations.

17   **Q.   WHAT IS 904 GEORGETOWN'S PROPOSED CAPITAL STRUCTURE**  
18   **IN THIS RATE CASE?**

19   A.   904 Georgetown's actual capital structure is 100% equity. For ratemaking  
20   purposes, 904 Georgetown recommends a hypothetical 50% debt and 50% equity  
21   capital structure. Based on the advice of counsel and our utility consultants, this  
22   appears to be a debt-to-equity ratio that is comparable to the ratios used in other

1 general rate cases decided by the Commission where there is no actual debt on the  
2 books.

3 **Q. WHAT DEBT COST RATE DOES 904 GEORGETOWN PROPOSE IN**  
4 **THIS PROCEEDING?**

5 A. I recommend 4.50% for the debt cost rate based on the advice of my counsel and  
6 utility consultants that a hypothetical debt rate of 4.50% is reasonable based on  
7 other water and sewer utility cases within the past year. I would note that interest  
8 rates have increased significantly, and based on those increases, the proposed  
9 hypothetical debt rate is on the low side of reasonable.

10 **Q. WHAT RATE OF RETURN ON EQUITY DOES 904 GEORGETOWN**  
11 **PROPOSE IN THIS PROCEEDING?**

12 A. I recommend 9.80% for the rate of return on equity. This recommendation is based  
13 on the more recent returns approved by the Commission and based on the advice  
14 of counsel and our utility consultants. Considering the increasing interest rates  
15 previously mentioned, as well as the rate of inflation, a 9.80% rate of return on  
16 equity for 904 Georgetown is reasonable.

17 **Q. WHAT OVERALL RETURN (WEIGHTED AVERAGE COST OF**  
18 **CAPITAL) RESULTS FROM THE CAPITAL STRUCTURE, DEBT COST**  
19 **RATE, AND EQUITY COST RATE RECOMMENDED BY 904**  
20 **GEORGETOWN IN THIS PROCEEDING?**

21 A.



1 We have based the proposed overall rate of return on operating revenue deductions  
2 of 7.15%, based on a margin on operating expenses which relates to an operating  
3 ratio of 93.47% (including taxes) or 93.33% (excluding taxes). As allowed under  
4 NC Gen Stat 62-133.1, we have used the operating ratio method to evaluate 904  
5 Georgetown's proposed rate increase. Prior to the operating ratio determination and  
6 due to the small margin between the proposed revenue requirement calculations, if  
7 the rate base method was determined to be appropriate, we propose using a capital  
8 structure of 50% debt and 50% equity with a return on equity of 9.80% and a debt  
9 cost of 4.50%, resulting in the overall weighted cost of capital of 7.15%

10 **Q. IS THIS TESTIMONY TRUE AND ACCURATE TO THE BEST OF YOUR**  
11 **KNOWLEDGE, INFORMATION, AND BELIEF?**

12 A. Yes.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

14 A. Yes, it does.  
15  
16